

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED)	
GAS ADJUSTMENT FILING OF)	CASE NO. 10288-C
AUXIER ROAD GAS COMPANY, INC.)	

O R D E R

On April 5, 1989, the Commission issued its Order in this case approving rates effective March 1, 1989 for Auxier Road Gas Company, Inc. ("Auxier Road"). The rates were based on the average wholesale cost of gas from Auxier Road's suppliers, Columbia Gas of Kentucky, Inc. ("Columbia") and Presley Energy ("Presley"), using purchases for the 12-month period ending December 31, 1988.

In its notice, Auxier Road computed the average wholesale cost of gas by applying Columbia's rate to its purchases from Presley for the period January through April 1988. Columbia's rate is higher than Presley's rate, which resulted in Auxier Road's computation of the average wholesale cost of gas to be overstated. The Commission corrected this error by applying Presley's rate to all of Presley's purchases for the 12-month period to arrive at a correct average wholesale cost of gas.

On April 25, 1989, Auxier Road filed a petition for rehearing contending that the Commission's Order resulted in an unjust reduction in Auxier Road's rates. To support this, Auxier Road computed an average wholesale cost of gas of \$3.5488, which is

5.06 cents higher than the average wholesale cost of gas of \$3.4982 approved in this case. In its computation, Auxier Road used purchases for the 12-month period ending March 31, 1989, a period during which it purchased 48,090 Mcf comprised of 44,159 Mcf from Columbia and 3,931 Mcf from Presley.

Auxier Road applied Columbia's rate to all but 660 Mcf of the 48,090 Mcf purchased. The 660 Mcf was the amount of gas purchased from Presley for the month of March 1989. If Auxier Road is attempting to update its 12-month base period to March 31, 1989, the correct supply mix is the actual purchases for the period, 44,159 Mcf from Columbia and 3,931 Mcf from Presley. Applying the suppliers' respective rates to these volumes would result in an average wholesale cost of gas of \$3.4891.¹ If Auxier Road is attempting to compute the actual average wholesale cost of gas strictly for the month of March 1989, the correct calculation would use the actual purchases from suppliers for March and apply their respective rates. According to Auxier Road's petition, it purchased 3,826 Mcf from Columbia and 660 Mcf from Presley during March 1989. This results in an average wholesale cost of gas of \$3.4318² for March 1989; 6.64 cents lower than the average wholesale cost approved in this case.

The purpose of a purchased gas adjustment is to set rates based on the most current supplier(s) rate in effect at the time

¹ Appendix.

² Ibid.

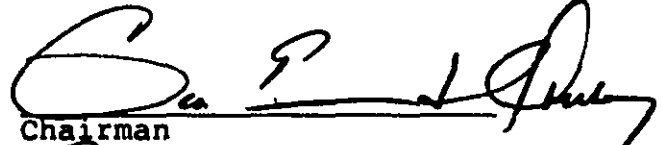
of filing. When more than one supplier is used, an average supplier rate must be computed based on a supply mix that is likely to occur. The Commission is of the opinion that the best estimate of supply mix is based on a recent historical 12-month period of purchases. The average wholesale rate based on historical 12-month activity is at best an estimate unless ongoing monthly purchases exactly match the 12-month supply mix. The Commission is aware that changes in supply mix may and do occur from month to month resulting in the over- or under-recovery of gas costs due to the difference between the average wholesale cost of gas included in rates and the actual average wholesale cost of gas which occurs during the period of time the purchased gas adjustment is in effect. These differences do exist as shown in the Appendix, attached and incorporated hereto. However, these differences are not unexpected nor will they prevent Auxier Road from properly recovering its gas cost. In its Order in Case No. 10288-A³ the Commission directed Auxier Road to reconcile any difference between its actual gas cost and the gas cost recovered through its rates. Any difference will be either refunded to or collected from Auxier Road's customers when the reconciliation is complete. Thus, the Commission is of the opinion that the recovery and calculations in its Order of April 5, 1989 are appropriate and that Auxier Road's petition is without merit and should be denied.

³ Case No. 10288-A, The Notice of Purchased Gas Adjustment Filing of Auxier Road Gas Company, Inc.

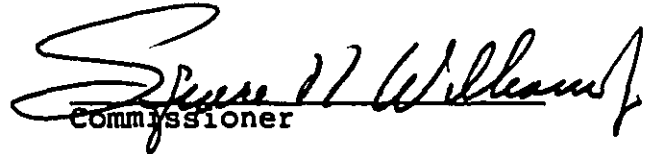
IT IS THEREFORE ORDERED that Auxier Road's petition for rehearing filed April 25, 1989 be and it hereby is denied.

Done at Frankfort, Kentucky, this 12th day of May, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX

12-Months Ended December 31, 1988*

<u>Supplier</u>	<u>MCF Purchases</u>	<u>\$ Rate</u>	<u>Amount</u>
Columbia	47,438	3.5608	\$168,917
Presley	<u>3,648</u>	<u>2.684</u>	<u>9,791</u>
	51,086	3.4982	\$178,708

12-Months Ended March 31, 1989

<u>Supplier</u>	<u>MCF Purchases</u>	<u>\$ Rate</u>	<u>Amount</u>
Columbia	44,159	3.5608	\$157,241
Presley	<u>3,931</u>	<u>2.684</u>	<u>10,551</u>
	48,090	3.4891	\$167,792

1-Month Ended March 31, 1989

<u>Supplier</u>	<u>MCF Purchases</u>	<u>\$ Rate</u>	<u>Amount</u>
Columbia	3,826	3.5608	\$13,624
Presley	<u>660</u>	<u>2.684</u>	<u>1,771</u>
	4,486	3.4318	\$15,395

*Base period as used in Order of April 5, 1989.